

CA2A/C2
H27

1998-99 C.2



Sessional Paper 835/2000

4 Session, 24 Legislature

Report of the

STANDING COMMITTEE ON THE

ALBERTA HERITAGE SAVINGS TRUST FUND

May, 2000



LEGISLATIVE ASSEMBLY OF ALBERTA

Standing Committee on the Alberta Heritage Savings Trust Fund

801 Legislature Annex

9718 - 107 Street

Edmonton, Alberta T5K 1E4

(403) 427-1350

Internet: diane_shumyla@assembly.ab.ca



LEGISLATIVE ASSEMBLY
ALBERTA

May, 2000

To the Honourable Ken Kowalski
Speaker of the Legislative Assembly
of the Province of Alberta

The Standing Committee on the Alberta Heritage Savings Trust Fund has the honour
to submit its report relating to the 1999 fiscal year for consideration by the
Legislative Assembly.

A handwritten signature in cursive script, appearing to read "Peter".

Peter Trynchy, M.L.A.
Chairman
Standing Committee on the
Alberta Heritage Savings Trust Fund

Members of the
STANDING COMMITTEE ON THE
ALBERTA HERITAGE SAVINGS TRUST FUND
24th Legislature, Fourth Session (Spring, 2000)

PETER TRYNCHY
MLA, Whitecourt - Ste. Anne (PC)
Chairman

VICTOR DOERKSEN
MLA, Red Deer-South (PC)
Deputy Chairman

BILL BONNER
MLA, Edmonton-Glengarry (Lib)

DEBBY CARLSON
MLA, Edmonton-Ellerslie (Lib)

GLEN CLEGG
MLA, Dunvegan (PC)

RON HIERATH
MLA, Cardston-Taber-Warner (PC)

ROB LOUGHEED
MLA, Clover Bar-Fort Saskatchewan (PC)

SHIRAZ SHARIFF
MLA, Calgary-McCall (PC)

RON STEVENS
MLA, Calgary-Glenmore (PC)

HUNG PHAM*
MLA, Calgary-Montrose (PC)
*Chairman until November 17, 1999

TABLE OF CONTENTS

	<u>Page</u>
I. Introduction	1
II. History of the Alberta Heritage Savings Trust Fund Act	1
III. Role of the Standing Committee on the Alberta Heritage Savings Trust Fund	3
IV. Amendments to the Alberta Heritage Savings Trust Fund Act	4
V. Motions passed by the 1999-2000 Standing Committee on the Alberta Heritage Savings Trust Fund pertaining to the Committee's mandate ...	5
VI. Public Meetings of the Alberta Heritage Savings Trust Fund Committee	6
VII. Financial Results for 1999	7
VIII. Schedule of Standing Committee Meetings 1999-2000	8
IX. Schedule of Annual Public Meetings 1997-2000	8

APPENDICES

Financial Results for 1999	Appendix I
----------------------------------	------------

I. INTRODUCTION

As all the proceedings of the Standing Committee and Public Meetings are open to the public, this report contains only a brief summary of the highlights of the Committee meetings. All standing committee meetings were recorded by *Alberta Hansard*, and transcripts and minutes are available in the Legislature Library. Unofficial transcripts of the public meetings are also available from the Legislature Library.

II. HISTORY OF THE ALBERTA HERITAGE SAVINGS TRUST FUND

On May 19, 1976, the Alberta Heritage Savings Trust Fund was established by an Act of the Legislative Assembly of Alberta. The reasons for and purposes of the Heritage Fund were set out in the preamble to the Alberta Heritage Savings Trust Fund Act:

WHEREAS substantial revenue is being received by the Government from the sale of non-renewable resources owned by the people of Alberta; and

WHEREAS there is a limited supply of non-renewable resources and therefore revenue from the sale of those resources will ultimately be reduced; and

WHEREAS it would be improvident to spend all that revenue as it is received; and

WHEREAS the Legislature of Alberta considers it appropriate that a substantial portion of that revenue be set aside and invested for the benefit of the people of Alberta in future years;

THEREFORE HER MAJESTY, by and with the advice and consent of the Legislative Assembly of Alberta, enacts as follows:

The Act, and subsequent amendments to it, set out the sources of funds and how these funds may be invested. Five distinct investment divisions of the Heritage Fund were defined, each with different aims and investment criteria.

The Act also outlined the powers of the Heritage Savings Trust Fund Investment Committee and the Provincial Treasurer to make investments under

Report of the Standing Committee on the Alberta Heritage Savings Trust Fund - May 2000

each division. The Investment Committee was to consist of all members of Executive Council.

It is the responsibility of the Provincial Treasurer, as soon as practicable after the end of each fiscal year, to prepare a report summarizing the operation of the Heritage Fund during the preceding fiscal year and containing a financial statement, audited by the Auditor General, showing:

1. transfers of cash and other assets to the Heritage Fund during the preceding fiscal year,
2. payments from and income to the Heritage Fund for the preceding fiscal year, and
3. total monies expended under Acts of the Legislature referred to in respect of investments in the Capital Projects Division of the Heritage Fund.

When the report is completed, the Provincial Treasurer makes copies available to all Members of the Legislative Assembly and to the Clerk of the Legislative Assembly. The report is then made public. The *Alberta Heritage Savings Trust Fund 1997 Annual Report* was made public on **June 26, 1997**.

In **December 1994**, Premier Ralph Klein announced that there would be a public consultation process to determine Albertans' views on the future of the Alberta Heritage Savings Trust Fund. The all-party, five member Alberta Heritage Savings Trust Fund Review Committee was established to receive and review submissions and determine whether there was consensus among Albertans on the future of the Fund. The Committee conducted public hearings and round table discussions. There were 1.1 million questionnaires mailed to homes across the province with 50,515 completed and returned. The Committee studied the input received and presented 14 recommendations to the government in the *Report Future Directions for Alberta's Heritage Fund* released on **March 28, 1995**.

On **January 24, 1996**, the Provincial Treasurer released its report, *Alberta Heritage Savings Trust Fund - Into the 21st Century* in response to the review of the Fund. This report details the future direction of the Fund and its objectives.

Report of the Standing Committee on the Alberta Heritage Savings Trust Fund - May 2000

A new Alberta Heritage Savings Trust Fund Act was passed by the legislature during the 1996 Spring Session and was proclaimed on **January 1, 1997**. The mission statement of the new Heritage Fund is set out in the preamble to the *Alberta Heritage Savings Trust Fund Act*:

WHEREAS the mission of the Heritage Fund is to provide prudent stewardship of the savings from Alberta's non-renewable resources by providing the greatest financial returns on those savings for current and future generations of Albertans.

III. ROLE OF THE STANDING COMMITTEE ON THE ALBERTA HERITAGE SAVINGS TRUST FUND

An excerpt from the *Alberta Heritage Savings Trust Fund Act* describes the mandate of the Act as follows:

6(1) There is hereby established a standing committee of the Legislative Assembly called the "Standing Committee on the Alberta Heritage Savings Trust Fund" consisting of 9 members of the Legislative Assembly.

(4) The functions of the Standing Committee are

- (a) to review and approve annually the business plan for the Heritage Fund;*
- (b) to receive and review quarterly reports on the operation and results of the operation of the Heritage Fund;*
- (c) to approve the annual report of the Heritage Fund;*
- (d) to review after each fiscal year end the performance of the Heritage Fund and report to the Legislature as to whether the mission of the Heritage Fund is being fulfilled;*

**Report of the Standing Committee on the Alberta Heritage Savings Trust Fund -
May 2000**

- (e) *to hold public meetings with Albertans on the investment activities and results of the Heritage Fund.*

This report was written, to be tabled in the Legislative Assembly as required by section 6(4)(d) of the *Alberta Heritage Savings Trust Fund Act* and as stated above.

The Standing Committee has made every attempt to fulfill its duties as required by the Standing Orders of the Legislative Assembly of Alberta.

IV. AMENDMENTS TO THE ALBERTA HERITAGE SAVINGS TRUST FUND ACT

From 1976 to 1982-83, the Heritage Fund derived its funds from two sources:

1. an annual transfer of 30 percent of the Province's non-renewable resource revenues; and
2. the retention of its investment earnings.

The transfer of resource revenues requires annual authorization by the Legislature through the passage of a special appropriation Act.

In **March, 1983**, two significant amendments were made to the Alberta Heritage Savings Trust Fund Act. The first amendment broadened the transfer provisions to allow the proportion of non-renewable resource revenue to be specified in the annual special appropriation Act. Previously, these Acts had to provide for 30 percent of such revenues to be transferred. During the 1983 spring sittings, the Legislative Assembly passed a special Act authorizing the transfer to the Heritage Fund of 15 percent of the non-renewable resource revenue received by the Province in 1983-84.

The second amendment allocated the Heritage Fund's net investment income to the General Revenue Fund for a two-year period beginning **September 1, 1982**.

Report of the Standing Committee on the Alberta Heritage Savings Trust Fund - May 2000

The Act was further amended in 1984 to continue the transfer of its net investment income.

Effective April 1, 1987, the non-renewable resource revenue transfer was suspended, as part of the Government's medium-term strategy to reduce the budgetary deficit to zero.

On January 1, 1997, the new Alberta Heritage Savings Trust Fund Act was proclaimed. The Act establishes that the Provincial Treasurer is responsible for the management and investment of Fund assets. The Act describes the new structure of the Fund where the Fund's assets are, over a ten year period, transferred from a Transition Portfolio to an Endowment Portfolio. It specifies a minimum annual transfer of \$1.2 billion of assets. The Act also provides for the Heritage Fund to retain sufficient income to offset inflation, subject to certain conditions.

The Provincial Treasurer shall for each fiscal year prepare and provide to the Treasury Board a business plan for the Heritage Fund. Upon Treasury Board approval, the Provincial Treasurer shall provide a copy of the approved business plan to the Standing Committee for its approval. On the Standing Committee's giving its approval of the business plan, the Provincial Treasurer shall incorporate the business plan into the business plan prepared by the Provincial Treasurer under section 13 of the *Government Accountability Act*.

V. MOTIONS PASSED BY THE 1999-2000 STANDING COMMITTEE ON THE ALBERTA HERITAGE SAVINGS TRUST FUND WHICH PERTAINS TO THE COMMITTEE'S MANDATE

The following summarized motions which were passed at the Standing Committee meetings indicate that the mission of the Alberta Heritage Savings Trust Fund had been fulfilled:

On April 26, 1999 the Alberta Heritage Savings Trust Fund Third Quarter Investment Report, 1998-99 had been adopted.

On April 26, 1999 the 1999 Report of the Standing Committee on the Alberta Heritage Savings Trust Fund had been adopted.

Report of the Standing Committee on the Alberta Heritage Savings Trust Fund - May 2000

On **June 21, 1999** the Alberta Heritage Savings Trust Fund Annual Report, 1999 had been adopted.

On **June 21, 1999** the Committee agreed to forward a request to the Provincial Treasurer that Section 6 of the *Alberta Heritage Savings Trust Fund Act* be amended by repealing subsection (4)(e) and substituting the following: to inform Albertans about the investment activities and results of the Heritage Fund.

On **October 5, 1999** the Committee adopted the strategic recommendations as presented by Treasury Communications to communicate to the public, without the use of billboard advertising, to revisit the cost of the communications plan next year, and make any necessary revisions, staying within the budget constraints of the budget year.

On **October 5, 1999** The Alberta Heritage Savings Trust Fund First Quarter Investment Report, 1999-2000 had been adopted.

On **January 19, 2000** the Alberta Heritage Savings Trust Fund Second-Quarter Update - 1999-2000 had been adopted.

On **January 19, 2000** the Alberta Heritage Savings Trust Fund 2000-2003 Business Plan had been adopted.

On **January 19, 2000** public meetings to be held in Red Deer and Grande Prairie on March 16, 2000 and March 23, 2000 had been agreed to.

On **January 19, 2000** the Standing Committee on Legislative Offices requested the Provincial Treasurer to bring forth an amendment to the *Alberta Heritage Savings Trust Fund Act* in the Spring Session regarding informing the public about the Fund.

VI. PUBLIC MEETINGS OF THE ALBERTA HERITAGE SAVINGS TRUST FUND COMMITTEE

The Standing Committee on the Alberta Heritage Savings Trust Fund held public meetings on March 16, 2000 in Red Deer and March 23, 2000 in Grande

Report of the Standing Committee on the Alberta Heritage Savings Trust Fund - May 2000

Prairie. The meetings were held to inform Albertans of the activities and results of the Heritage Savings Trust Fund, according to its mandate.

The Standing Committee is non-partisan and includes nine members of the Legislative Assembly from both government and the Official Opposition. Each meeting was chaired by Peter Trynchy, MLA, Whitecourt - Ste. Anne, Chairman of the Committee, and was attended by Members of the Committee, representatives from Alberta Treasury, Mr. Paul Pugh, Chief Investment Officer, Mr. Laurence Waring, Director, External Fund Management, Investment Management Division, and from Treasury Communications. Ms. Diane Shumyla, Committee Clerk, Legislative Assembly of Alberta also accompanied the Committee.

The meetings opened with a brief statement by the Chair outlining the purpose of the public meetings. Mr. Trynchy was followed by Committee Vice-Chair, Victor Doerksen, MLA, Red Deer-South, and other Committee members who explained the Fund's history and mandate, and its financial performance and characteristics.

VI. FINANCIAL RESULTS FOR 1999

The results for 1999 are based on the new format as outlined in the business plan. The three goals outlined in the business plan are:

- (1) Earn income to support the government's consolidated fiscal plan.
- (2) Make investments in the Endowment Portfolio to maximize long term financial returns.
- (3) To improve Albertans' understanding and the transparency of the Alberta Heritage Savings Trust Fund.

The highlights of the financial results for 1999-2000 are contained in an excerpt from the *Alberta Heritage Savings Trust Fund Annual Report Summary* (Appendix I).

**Report of the Standing Committee on the Alberta Heritage Savings Trust Fund -
May 2000**

**VIII. SCHEDULE OF STANDING COMMITTEE MEETINGS,
1999-2000**

Meeting Date	Appearance/Topic
April 26, 1999	Standing Committee Meeting
June 21, 1999	Standing Committee Meeting
October 5, 1999	Standing Committee Meeting
January 19, 2000	Standing Committee Meeting

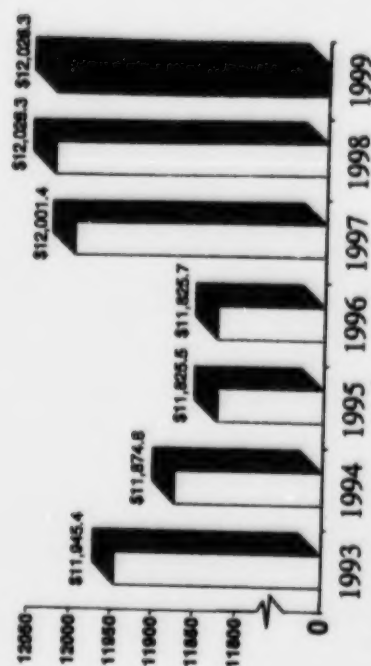
IX. SCHEDULE OF ANNUAL PUBLIC MEETINGS, 1997-2000

Meeting Date	Location
October 28, 1997	Edmonton
October 30, 1997	Calgary
November 4, 1997	Peace River
November 6, 1997	Medicine Hat
October 28, 1998	Edmonton
October 28, 1998	Fort McMurray
November 3, 1998	Calgary
November 4, 1998	Lethbridge
March 16, 2000	Red Deer
March 23, 2000	Grande Prairie

The Year in Review

- The Fund earned net income of \$932.0 million in income in 1998-99, down from \$947.3 million a year earlier, reflecting lower realized capital gains due to market volatility and having a lower proportion of the assets invested in fixed income.
- The Government of Alberta financial statements are prepared on a consolidated basis and therefore eliminates the income the Heritage Fund receives on holding Alberta government and Provincial Corporation securities. Net income of the Heritage Fund for the year ending March 31, 1999 on that basis is \$816 million which is \$115 million greater than budgeted.
- On March 31, 1999, the total equity of the Fund was \$12,026.3 million on a cost basis and \$12,714.2 million on a fair value basis. On the cost basis, the equity of the Fund did not change from 1998 and on a fair value basis, the Fund equity declined from the March 31, 1998 amount of \$12,969.5 million due to the transfer of the net income to general revenues of the province.
- Over the year, \$1,205.4 million (at cost) was transferred from the Transition Portfolio to the Endowment Portfolio.
- The Transition Portfolio returned 5.4% and underperformed its benchmark of 5.9% by 50 basis points. The Endowment Portfolio returned 4.7% the same as the policy benchmark of 4.7%. Combining the Transition Portfolio and the Endowment Portfolio over two years, the Fund, as a whole, returned 7.5% (annualized) compared to the market cost of the Province's Canadian dollar debt of 6.8% (annualized).
- On March 31, 1999 the long run equity benchmark exposure was increased to 60% from 55% and the foreign equity benchmark exposure was increased from 20% to 30% for the Endowment Portfolio.
- In addition to the annual report and quarterly updates, the Standing Committee once again undertook a series of public meetings to report on the Fund and answer Albertans' questions.

Total Heritage Fund Equity*
(millions)



* Assets less liabilities, at cost.

Total Heritage Fund Income
(millions)

